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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

December 31, 2014

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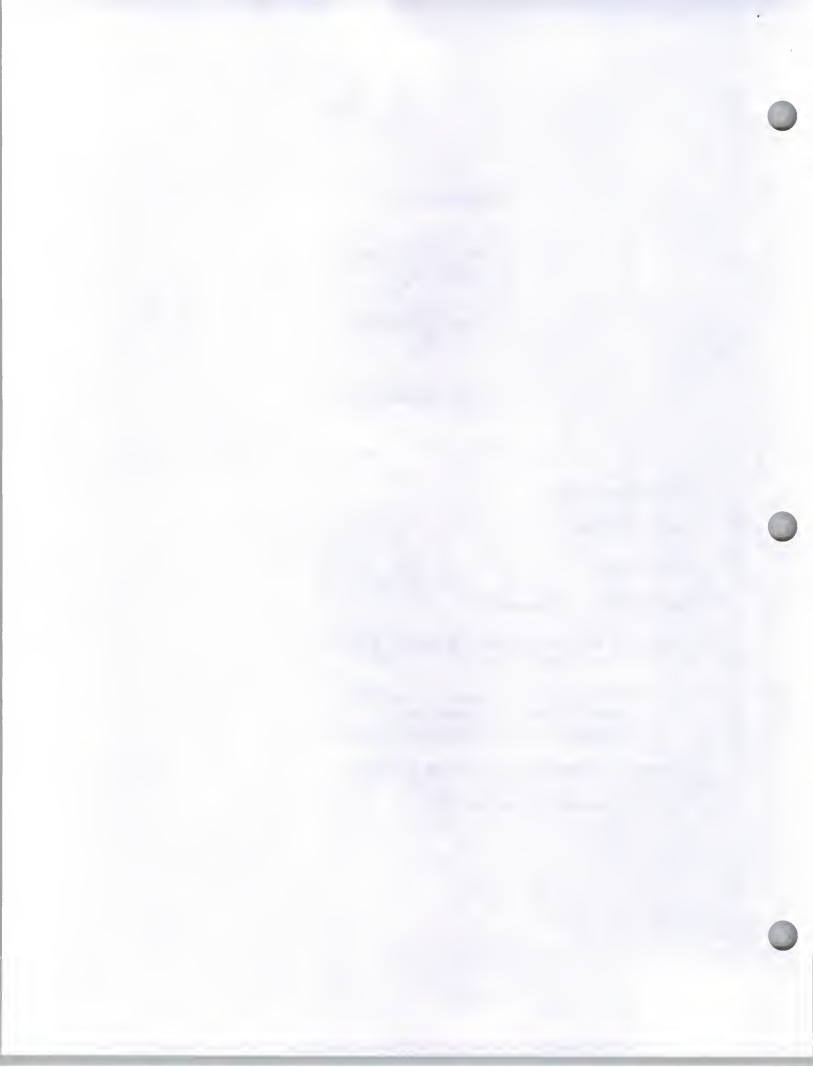
MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

December 31, 2014

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APPOINTIVE OFFICIALS

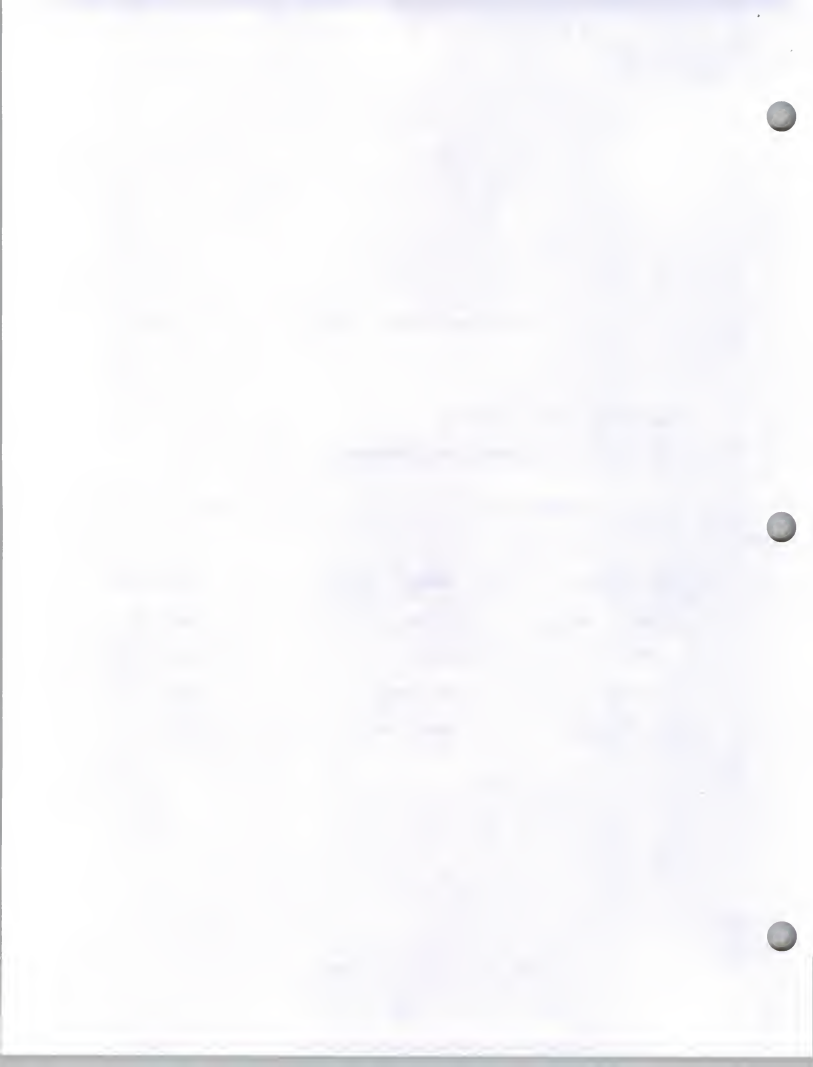
Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION

TERM EXPIRES

Tom Keegan	Helena	January 1, 2018
Wilbur Rehmann	Helena	January 1, 2017
Leo Prigge	Butte	January 1, 2019
Cindy Hiner	Deer Lodge	January 1, 2017
Frank DiFonzo	Sidney	January 1, 2017



REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Steve Bullock

Director of DOA – Sheila Hogan

Legislative Auditor – Tori Hunthausen

President of the Senate – Debby Barrett

Speaker of the House – Austin Knudsen

The law also states “the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature.” The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – STATE ADMINISTRATION COMMITTEE

Jeff Essmann

Bill Harris

Casey Schreiner

Bryce Bennett

Bob Brown

Moffie Funk

Frank Garner

Edward Greef

Denise Hayman

Jessica Karjala

Austin Knudsen

Debra Lamm

Forrest Mandeville

Wendy McKamey

Dale Mortensen

Jean Price

Ray Shaw

Kathy Swanson

Susan Webber

Art Wittich

HOUSE – BUSINESS AND LABOR COMMITTEE

Tom Berry

Jeffrey Welborn

Ryan Lynch

Christy Clark

Willis Curdy

Steve Fitzpatrick

Chuck Hunter

George Kipp

Mike Lang

David Moore

Mark Noland

Andrea Olsen

Gordon Pierson

Christopher Pope

Vince Ricci

Tom Richmond

Daniel Salomon

Scott Staffanson

Tom Steenberg

SENATE – STATE ADMINISTRATION COMMITTEE

Dee Brown

Roger Webb

Robyn Driscoll

Jedediah Hinkle

Doug Kary

Sue Malek

Lea Whitford

SENATE – BUSINESS, LABOR, AND ECONOMIC AFFAIRS COMMITTEE

Ed Buttrey

Elsie Arntzen

Dee Brown

Pat Connell

Tom Facey

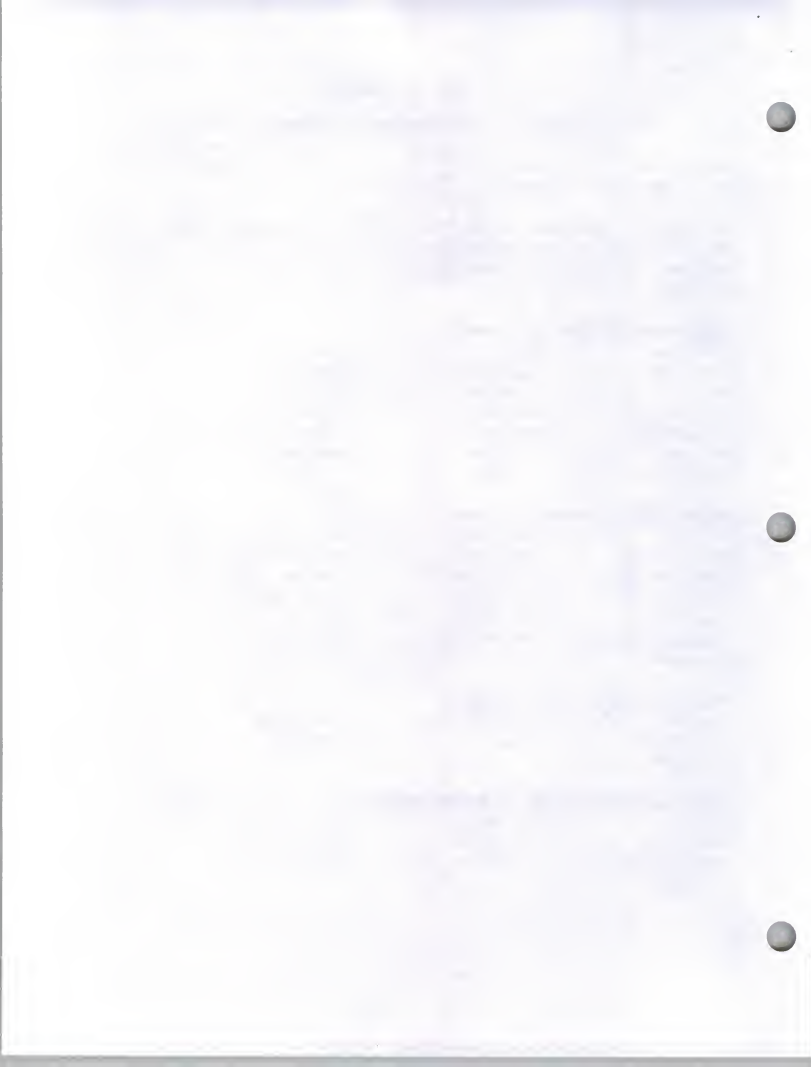
Cary Smith

Sharon Stewart-Peregoy

Gordon Vance

Gene Vuckovich

Lea Whitford





**Montana
LOTTERY**
For the fun of it!

2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

March 2015

Montana Lottery Commission:

The past quarter has been an active one. We have had a busy winter preparing for another segment of our Fantasy Racing, wrapping up our Montana Millionaire game, and ramping up for the introduction of the new game Lucky for Life.

Even though game sales are slightly down from last year, we are experiencing a strong sales year overall. Scratch, Montana Cash, Hot Lotto, and EZ play sales each experienced an increase over last year's second quarter. Scratch sales were 8.3% higher, Montana Cash increased by 35.3%, Hot Lotto sales were up by 14.3%, and EZ play sales increased by 0.6%.

The rest of the games have seen a decrease compared to last year at this time. Powerball sales were 30.3% lower, Wild Card sales were 17.6% lower, Mega Millions sales dropped by 26.8%, and 10 Spot sales slipped by 4.5%.

Overall, there was a small decrease in operating revenue of 6.8% along with a decrease in direct game costs of 4.1%. Combined with a 0.7% increase in operating expenses, the transfer for the second quarter was \$3,321,749 which is \$1,185,769 less than last year at this time. The percentage of transfer to revenue was 21.9% this quarter compared to 24.5% last year's second quarter.

The Lottery plans to introduce 50+ new scratch games during the fiscal year 2015. We plan to continue building scratch sales through innovative game themes and offering games with built-in name recognition (licensed property games).

We are looking forward to a busy spring with another season of Fantasy Racing, along with the introduction of new EZ play games.

Sincerely,

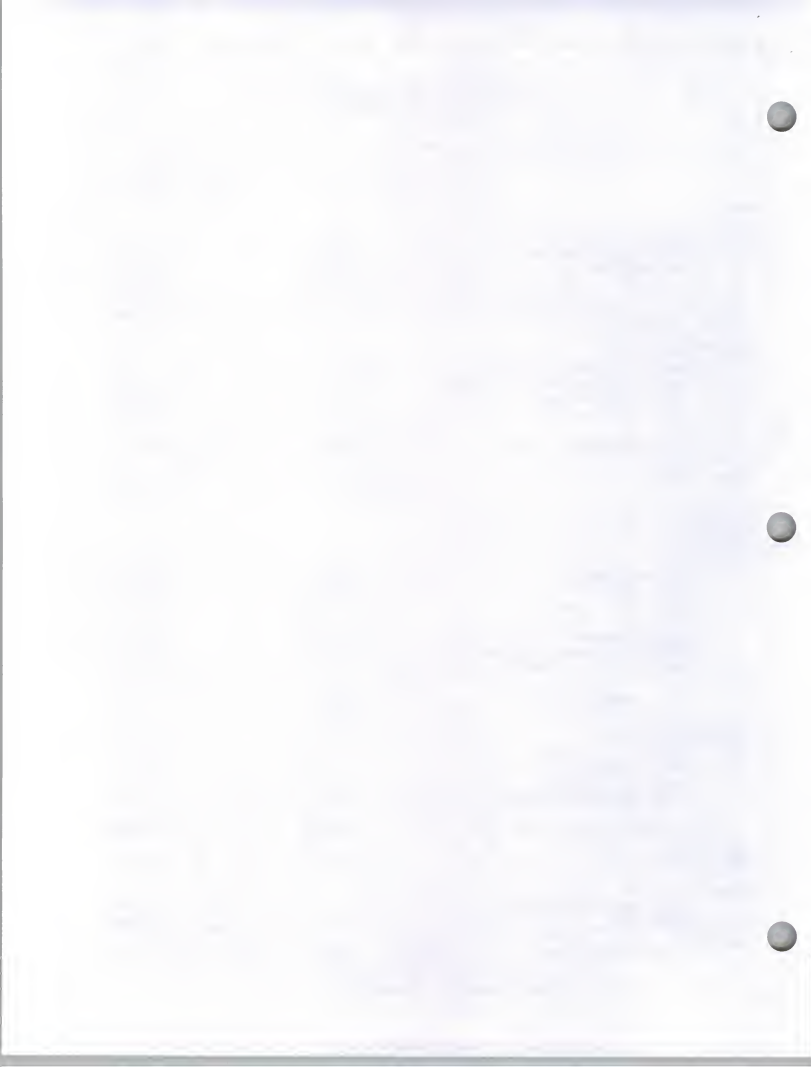
Angela Wong
Director



**MONTANA LOTTERY
STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013
(Unaudited)**

	Period Ended December 31, 2014	Period Ended December 31, 2013
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,069,875	\$ 5,444,698
Receivables (Net)	2,672,264	2,504,724
Inventories	473,014	492,968
TOTAL CURRENT ASSETS	8,215,153	8,442,390
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,990,856	2,981,106
Leasehold Improvements	59,781	45,448
Accumulated Depreciation	(2,339,017)	(1,828,820)
Multi-State Reserve fund	1,381,118	1,607,510
TOTAL NONCURRENT ASSETS	2,092,738	2,805,244
TOTAL ASSETS	\$ 10,307,891	\$ 11,247,634
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	\$ 403,997	\$ 316,529
Estimated Prize Liability	3,794,896	3,583,348
Due to Primary Government	680	0
Transfer Obligations	4,020,568	3,994,407
Deferred Revenue	112,044	236,020
Accrued Compensated Absences	103,356	159,700
Current Portion Long-Term Obligations	72,168	72,168
TOTAL CURRENT LIABILITIES	8,507,709	8,362,172
NONCURRENT LIABILITIES		
Multi-State Prize Liability	1,210,955	1,400,370
Accrued Compensated Absences	93,500	18,557
Long Term Obligations	18,042	90,210
Other Post Employment Benefits	532,562	589,890
TOTAL NONCURRENT LIABILITIES	1,855,059	2,099,027
TOTAL LIABILITIES	10,362,768	10,461,199
NET POSITION		
Net Investment in Capital Assets	621,410	1,035,356
Unrestricted	(676,287)	(248,921)
TOTAL NET POSITION	\$ (54,877)	\$ 786,435

The accompanying notes are an integral part of these financial statements.



MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS ENDED DECEMBER 31, 2014 AND 2013
(Unaudited)

	Quarter Ended December 31, 2014	Quarter Ended December 31, 2013	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
OPERATING REVENUES:				
Scratch ticket revenue	\$ 4,634,769	\$ 4,273,335	8,951,135	\$ 8,265,378
Powerball revenue	2,868,331	3,538,466	6,005,060	8,616,853
Montana Cash revenue	1,158,926	870,717	2,328,894	1,721,155
Wild Card revenue	408,215	505,971	821,445	997,362
Hot Lotto revenue	702,235	671,441	1,691,482	1,479,522
Mt. Millionaire revenue	2,700,000	2,600,020	2,700,000	2,600,020
Mt. Sports Action revenue	3,059	2,785	3,890	3,526
Mega Millions revenue	1,168,378	2,075,329	2,148,716	2,936,014
10 Spot revenue	156,344	159,684	311,650	326,249
EZ Play revenue	958,075	1,006,367	1,878,825	1,864,997
License, permits, and misc	<u>8,635</u>	<u>923</u>	<u>9,175</u>	<u>7,566</u>
Total Operating Revenues	14,754,967	15,705,038	26,848,272	28,818,442
Less Direct Game Costs:				
Scratch ticket prize expense	2,733,779	2,516,771	5,490,232	4,997,105
On-line ticket prize expense	5,583,240	6,156,343	9,818,963	11,041,798
Retailer commission	872,611	895,312	1,585,912	1,634,545
Cost of tickets sold	314,900	81,167	388,747	284,400
Vendor fees	<u>848,138</u>	<u>910,645</u>	<u>1,561,521</u>	<u>1,698,596</u>
Total Direct Game Costs	10,352,668	10,580,238	18,845,375	19,648,414
Income Before Operating Expenses	4,402,299	5,144,800	8,002,897	9,172,028
OPERATING EXPENSES:				
Advertising	171,423	190,011	185,992	260,845
Advertising Production	67,657	70,514	105,930	135,930
Audit Fees	9,640	19,129	13,783	24,333
Bad Debts Expense	(3,875)	0	(3,875)	(4,760)
Communications	43,268	27,983	72,955	61,593
Contractual Services	26,552	12,678	41,624	27,802
Depreciation and Amortization	127,173	128,872	263,926	267,744
Interest	1,470	2,507	3,199	5,273
Administrative Service Fee	16,205	16,237	32,410	32,475
Multi-State Dues	75	0	31,149	44,308
Public Relations	817	30,867	57,982	57,764
Other	6,480	5,031	13,955	10,543
Personal Services	461,305	514,153	1,006,768	953,379
Repairs and Maintenance	5,976	1,390	10,665	4,221
Supplies and Materials	59,010	6,999	117,617	134,159
Travel	10,221	8,124	26,679	26,137
Utilities and Rent	<u>155,481</u>	<u>194,058</u>	<u>311,633</u>	<u>235,349</u>
Total Operating Expense	1,168,878	1,228,553	2,282,392	2,267,095
Operating Income	3,243,421	3,916,247	5,720,505	6,904,933
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	<u>1,141</u>	<u>973</u>	<u>1,720</u>	<u>3,061</u>
Total Nonoperating Revenues(Expenses)	<u>1,141</u>	<u>973</u>	<u>1,720</u>	<u>3,061</u>
Income Before Operating Transfers	3,244,562	3,917,220	5,722,225	6,907,994
Operating Transfers Out - General Fund	<u>(3,321,749)</u>	<u>(3,994,407)</u>	<u>(5,876,600)</u>	<u>(7,062,369)</u>
Total Operating Transfers	<u>(3,321,749)</u>	<u>(3,994,407)</u>	<u>(5,876,600)</u>	<u>(7,062,369)</u>
CHANGE IN NET POSITION				
	(77,187)	(77,187)	(154,375)	(154,375)
Total Net Position, Beginning of Period	554,872	863,622	632,060	940,810
Prior Period Adjustments	<u>(532,562)</u>	<u>-</u>	<u>(532,582)</u>	<u>-</u>
TOTAL NET POSITION, END OF PERIOD	\$ (54,877)	\$ 786,435	(54,877)	\$ 786,435

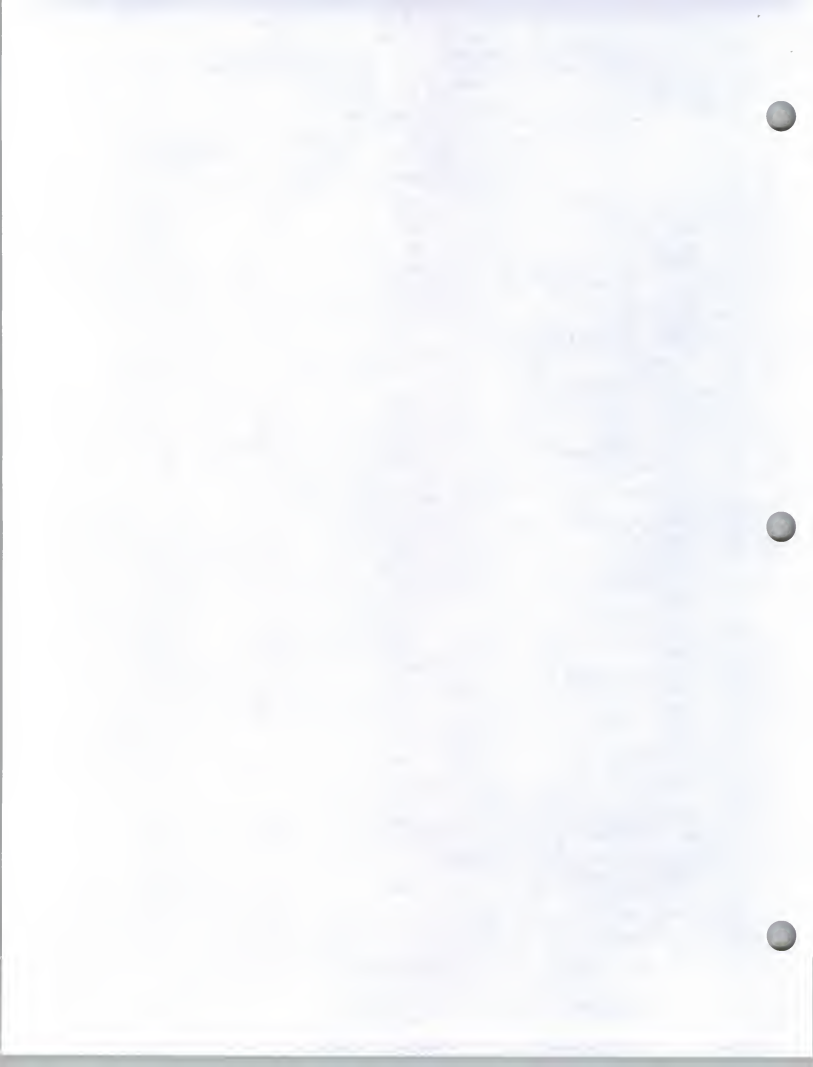
The accompanying notes are an integral part of these financial statements.



MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE QUARTER ENDED DECEMBER 31, 2014
(Unaudited)

	Budget Fiscal Year July 1, 2014 - June 30, 2015	Actual Six Months Ended December 31, 2014 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	\$ 16,800,000	\$ 8,951,135	53.28
Powerball revenue	16,500,000	6,005,080	36.39
Montana Cash revenue	3,800,000	2,328,894	61.29
Wild Card revenue	2,050,000	821,445	40.07
Hot Lotto revenue	3,100,000	1,691,482	54.56
MT Millionaire	2,700,000	2,700,000	100.00
MT Sports Action (Admin Fees)	6,000	3,890	64.83
10 Spot	550,000	311,650	56.66
Mega Millions	4,000,000	2,148,716	53.72
EZ Play revenue	4,000,000	1,876,825	46.92
License, permits, and miscellaneous	15,000	9,175	61.17
Total Revenues	53,521,000	26,848,272	50.16
DIRECT GAME COSTS:			
Prizes - Scratch ticket	10,542,000	5,490,232	52.08
Prizes - Lotto games	18,700,000	8,267,713	44.21
Prizes - MT Millionaire	1,510,000	1,551,250	102.73
Retailer commissions	3,055,000	1,585,912	51.91
Ticket cost - scratch games	910,000	388,747	42.72
Ticket cost - vendor fees	3,103,000	1,561,521	50.32
Total Direct Game Costs	37,820,000	18,845,375	49.83
OPERATING EXPENSES:			
Advertising	456,251	185,992	40.77
Advertising Production	220,000	105,930	48.15
Audit Fees	75,405	13,783	18.28
Communications	140,584	72,955	51.89
Contractual Services	88,367	41,624	47.10
Interest	5,360	3,199	59.68
Administrative Service Fee	64,820	32,410	50.00
Multi-State Dues	50,000	31,149	62.30
Public Relations	65,000	57,982	89.20
Other	97,602	13,955	14.30
Personal Services	2,031,345	1,006,768	49.56
Repairs and Maintenance	27,850	10,665	38.29
Supplies and Materials	192,822	117,617	61.00
Travel	64,625	26,679	41.28
Utilities and Rent	690,943	311,633	45.10
Equipment	28,000	0	0.00
Total Operating Expenses	4,298,974	2,032,341	47.28
Operating Income	11,402,026	5,970,556	52.36
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	5,000	1,469	29.38
NET INCOME (BUDGETARY BASIS)	\$ 11,407,026	\$ 5,972,025	52.35
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	28,000	0	0.00
Adjustment for depreciation expense	(514,016)	(253,926)	49.40
Bad Debts	0	3,875	0.00
MUSL interest earnings	2,000	251	12.55
Total Reconciling Items	(484,016)	(249,800)	
NET INCOME (GAAP BASIS)	\$ 10,923,010	\$ 5,722,225	52.39

The accompanying notes are an integral part of these financial statements.



MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2014
(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	MT SPORTS ACTION	ADMIN
REVENUES:	\$ 8,951,135	\$ 6,005,060	\$ 2,328,894	\$ 821,445	\$ 1,691,482	\$ 2,700,000	\$ 2,148,716	\$ 311,050	\$ 1,876,825	\$ 3,880	\$ 9,175
DIRECT GAME COSTS:											
Prize Expense	5,490,232	2,910,119	1,275,498	453,232	823,455	1,551,250	1,044,066	169,675	1,585,273	0	6,395
Retailer Commissions	691,557	300,299	116,465	41,088	84,604	135,000	107,457	15,583	93,839	0	0
Cost of Tickets Sold	388,747	0	0	0	0	0	0	0	0	0	0
Vendor Fees	515,836	348,007	138,261	52,421	102,340	156,624	123,536	17,934	106,562	0	0
NET OPERATING REVENUE	1,864,763	2,448,635	798,650	274,704	881,083	857,126	873,657	108,458	91,151	3,880	2,780
OPERATING EXPENSES:											
Advertising	10,905	4,649	237	6,222	237	143,701	4,648	237	237	0	14,917
Advertising Production	7,968	7,968	8,600	6,073	5,346	62,261	7,714	0	0	0	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	13,783
Bad Debts	0	0	0	0	0	0	0	0	0	0	(3,875)
Communications	26,531	0	0	0	0	0	0	0	0	0	46,424
Contractual Services	346	0	0	0	0	5,501	1	0	0	0	35,776
Depreciation and Amortization	48,246	22,853	22,853	17,775	17,775	22,853	7,618	7,618	7,618	30,471	48,246
Interest	0	0	0	0	0	0	0	0	0	0	3,199
Administrative Service Fee	8,103	3,241	2,917	2,269	2,269	1,945	972	972	972	1,945	6,808
Multi-State Dues	0	21,736	0	2,215	3,389	0	3,810	0	0	0	0
Public Relations	8,468	797	797	797	797	0	797	797	797	0	43,935
Other	573	0	0	0	0	0	0	0	0	0	13,382
Personal Services	251,692	100,677	90,609	70,474	70,474	60,406	30,203	30,203	30,203	60,406	211,421
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	10,665
Supplies and Materials	3,886	6	6	6	6	0	6	6	6	0	113,892
Travel	2,517	357	360	360	360	0	360	360	360	0	21,645
Utilities and Rent	1,515	380	380	380	380	0	380	380	380	0	307,457
TOTAL OPERATING EXPENSES	370,550	162,664	126,759	106,571	101,033	296,667	58,509	40,573	40,573	92,822	887,673
OPERATING INCOME	1,494,213	2,283,971	671,891	168,133	580,050	560,459	817,148	67,885	50,578	(88,932)	(884,893)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	1,720
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	1,720
NET INCOME BY PRODUCT	\$ 1,494,213	\$ 2,283,971	\$ 671,891	\$ 168,133	\$ 580,050	\$ 560,459	\$ 817,148	\$ 67,885	\$ 50,578	\$ (88,932)	\$ (883,173)
PROFIT AS A % OF REVENUE	16.99%	38.03%	28.85%	20.47%	34.29%	20.76%	38.03%	21.78%	2.69%	N/A	N/A

NOTE: THIS IS 'SIX MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.



MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

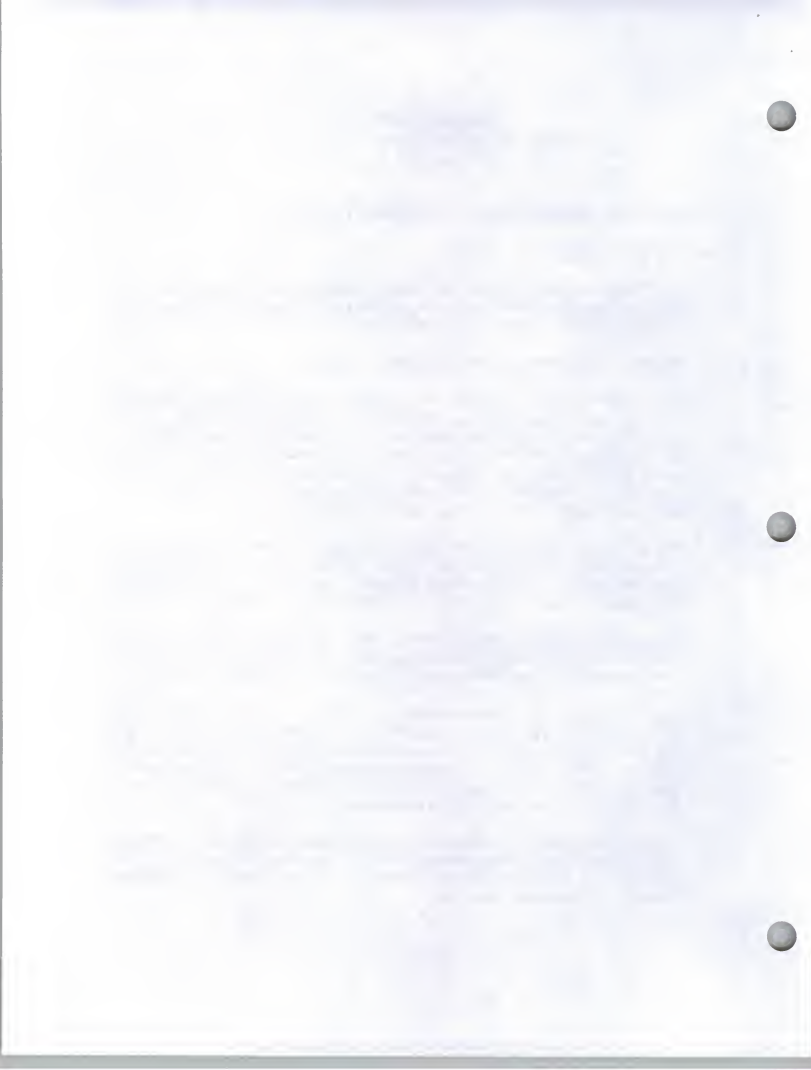
The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.



Property and Equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is \$5,000 and the threshold for capitalizing buildings/land improvements is \$25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

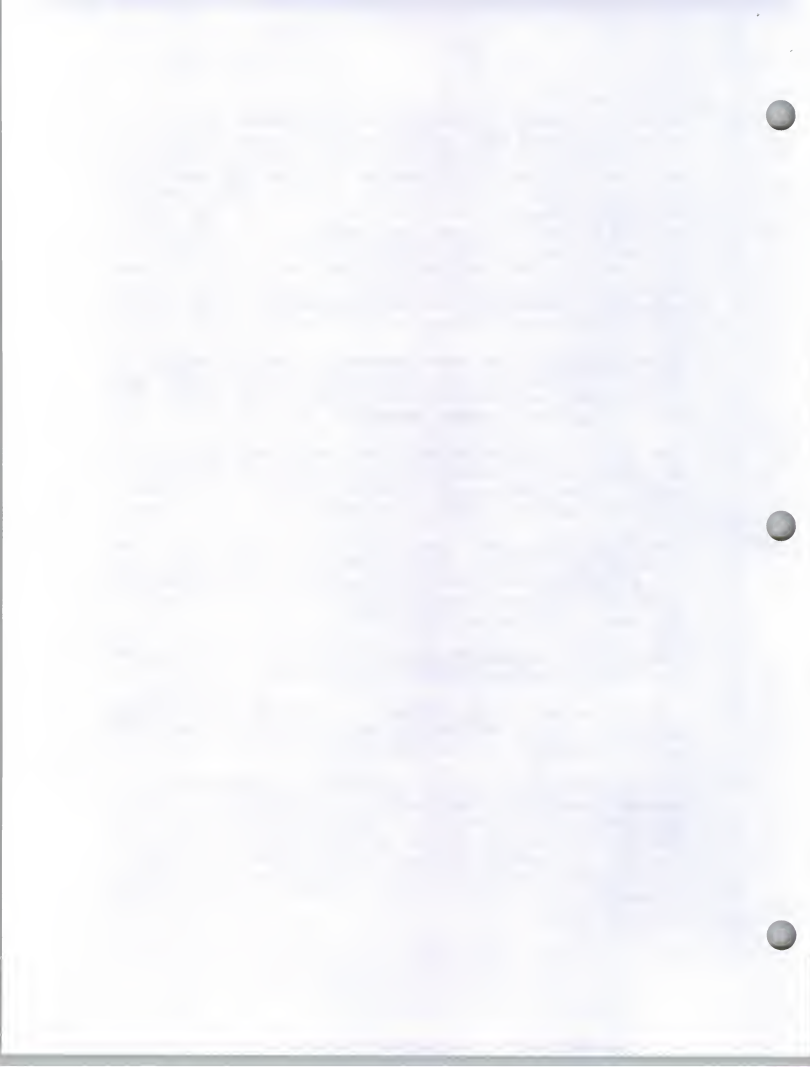
Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

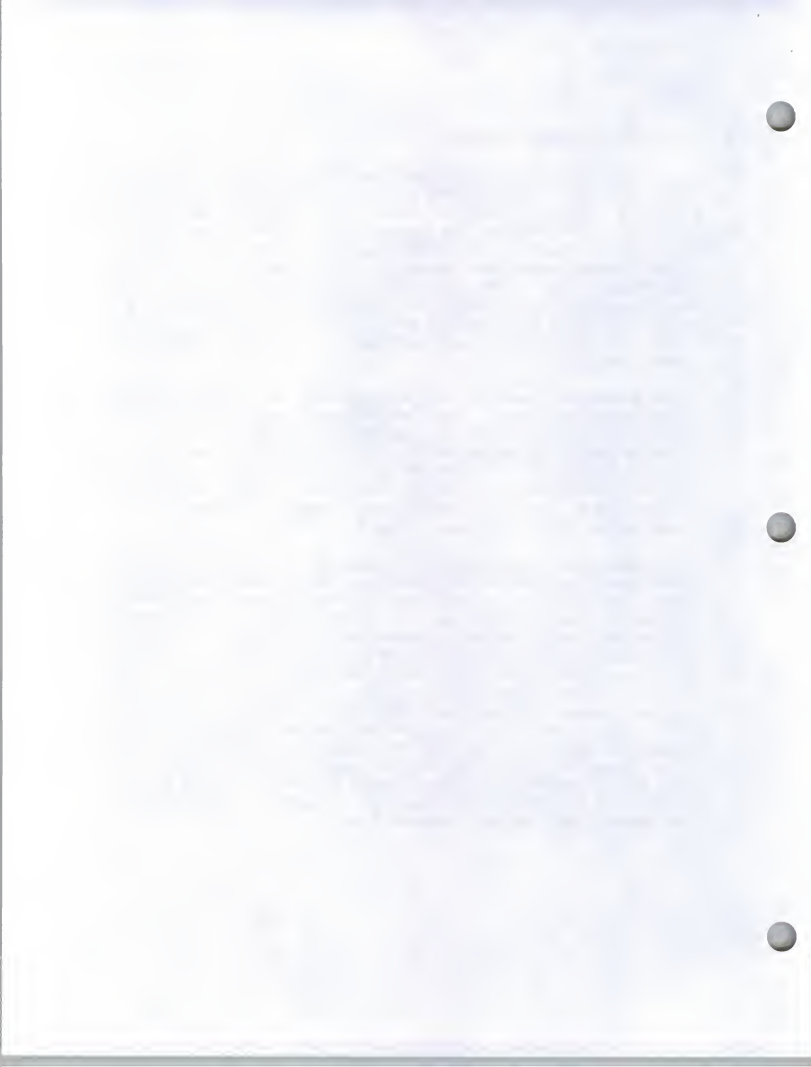


2. OTHER ACCOUNTING ISSUES

New Accounting Guidance Implemented. For the year ended June 30, 2013, the Montana Lottery implemented the provisions of GASB Statement No. 63 – “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government's net position. For the Lottery, this entailed changing the titles of the financial statements. Also changed were the presentation of the net position section, and the overall accounting formula of the Statement of Net Position. GASB 63 changes the terminology of the different types of net position, which the Lottery has adopted, without any change to the financial information from Fiscal Year 2012.

For the year ended June 30, 2014, the Montana Lottery implemented the provisions of GASB Statement No. 65 – “Items Previously Reported as Assets and Liabilities.” This statement essentially changes and redefines the different elements of a financial statement, specifically the Statement of Net Position. The Lottery has adopted this statement by changing the line item of “deferred revenue” to the new title of “unearned revenue” on the Statement of Net Position. This was not a restatement for Fiscal Year 2013 as this only changed the title for the same statement item without changing any amounts.

Prior Period Adjustments. Prior period adjustments reported in the accompanying financial statements relate to corrections of errors and changes in accounting policy from prior periods. The two most significant adjustments relate to Other Post Employment Benefits (OPEB). It was determined that OPEB liability was overstated by the amortization of Net OPEB Obligation and was not adjusted in the ending liability balance for each year, as it relates to the Annual Required Contribution. This actuarial calculation is now reflected in the liability as an implicit rate subsidy with the corrected ending liability balance. Also, it was determined that generally accepted accounting standards and state statutes did not intend to include the OPEB expense when determining the amount of transfer to the General Fund each year. This expense is now disregarded and added to the change in net position on the Statement of Revenues, Expenses, and Changes in Net Position. As a result of the above, the Net Position was increased by \$101,192 for the amended amortization of the Net OPEB obligation and reduced by \$488,054 for the recalculation of the transfer to the General Fund.



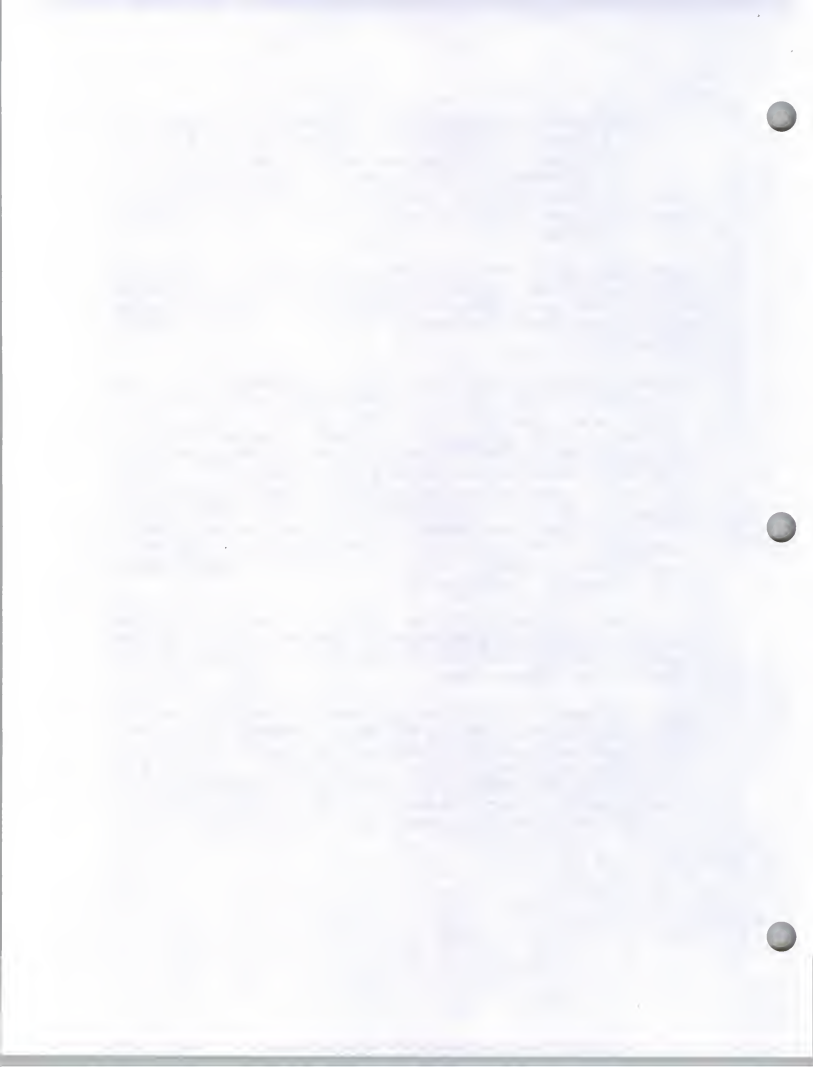
Reclassification and Restatement. In order to make certain prior year amounts compare to current year presentation on the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, fiscal year 2013 items were adjusted to reflect the above Prior Period Adjustments. The restatement of fiscal year 2013 was due to the change in calculation of Other Post Employment Benefits and the calculation of the Transfer Obligations.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and six months ended December 31, 2014 was \$113,487 and \$241,033, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended December 31, 2014, promotional credits resulted in a revenue reduction of approximately \$3,278 and an expense reclassification of approximately \$2,156. For the six months ended December 31, 2014, promotional credits resulted in a revenue reduction of approximately \$8,289 and an expense reclassification of approximately \$6,245.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.



	Quarter Ended 12/31/14	Quarter Ended 12/31/13	Year To Date 12/31/14	Year To Date 12/31/13
Lotto	\$103,195	\$147,740	\$203,216	\$232,467
Scratch	\$363,184	\$206,103	\$461,580	\$312,871
TOTALS	\$466,379	\$353,843	\$664,796	\$545,338

3. SUMMARY OF ACCOUNTS

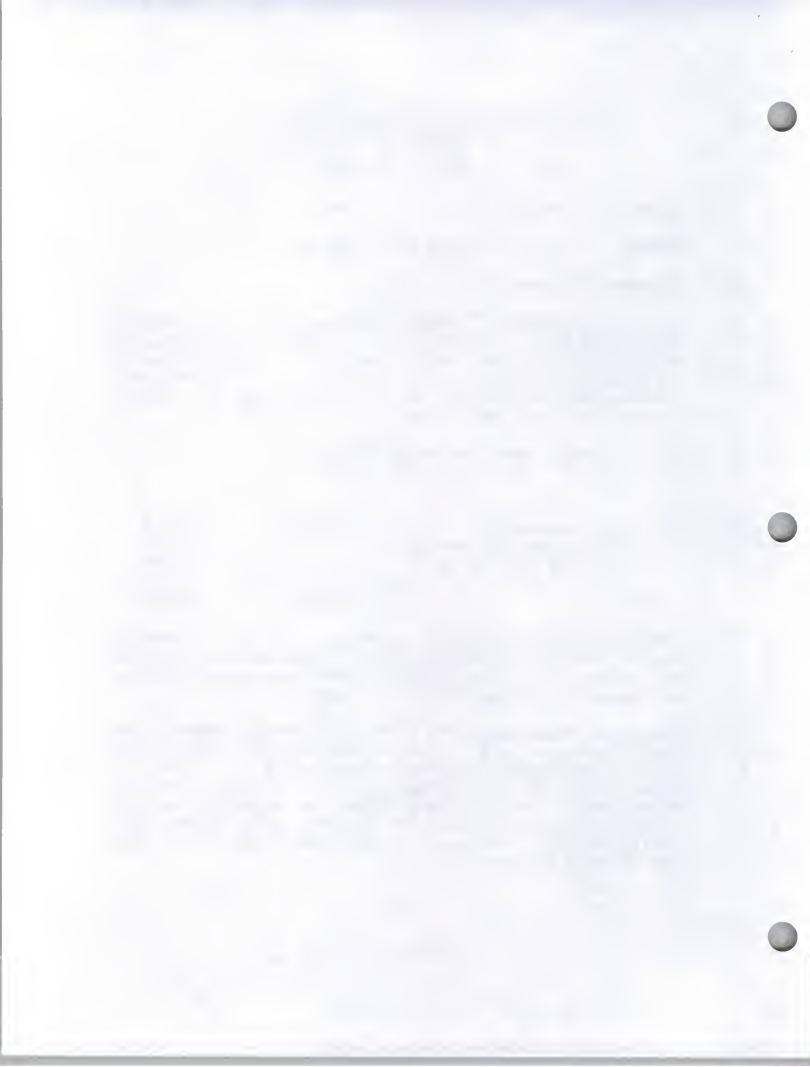
Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	December 31,	
	2014	2013
Short-term investment pool	\$2,417,701	\$2,713,815
Cash on deposit with State Treasurer	2,642,174	2,720,883
Cash in revolving deposit account	10,000	10,000
TOTALS	\$5,069,875	\$5,444,698

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$12,900 at December 31, 2014 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include \$2,880,243, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at December 31, 2014, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to January 1, 2015. The allowance for ticket returns is \$220,784 at December 31, 2014. The return of vendor fees related to the allowance for returns is \$12,805.



For the six months ended December 31, 2013, receivables included \$2,744,344, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of December 31, 2013, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to January 1, 2014. The allowance for ticket returns is \$254,374 as of December 31, 2013. The return of vendor fees related to the allowance for returns is \$14,754.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for the six months ended December 31, 2014 and 2013 include scratch tickets valued at \$417,642 and \$390,406, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

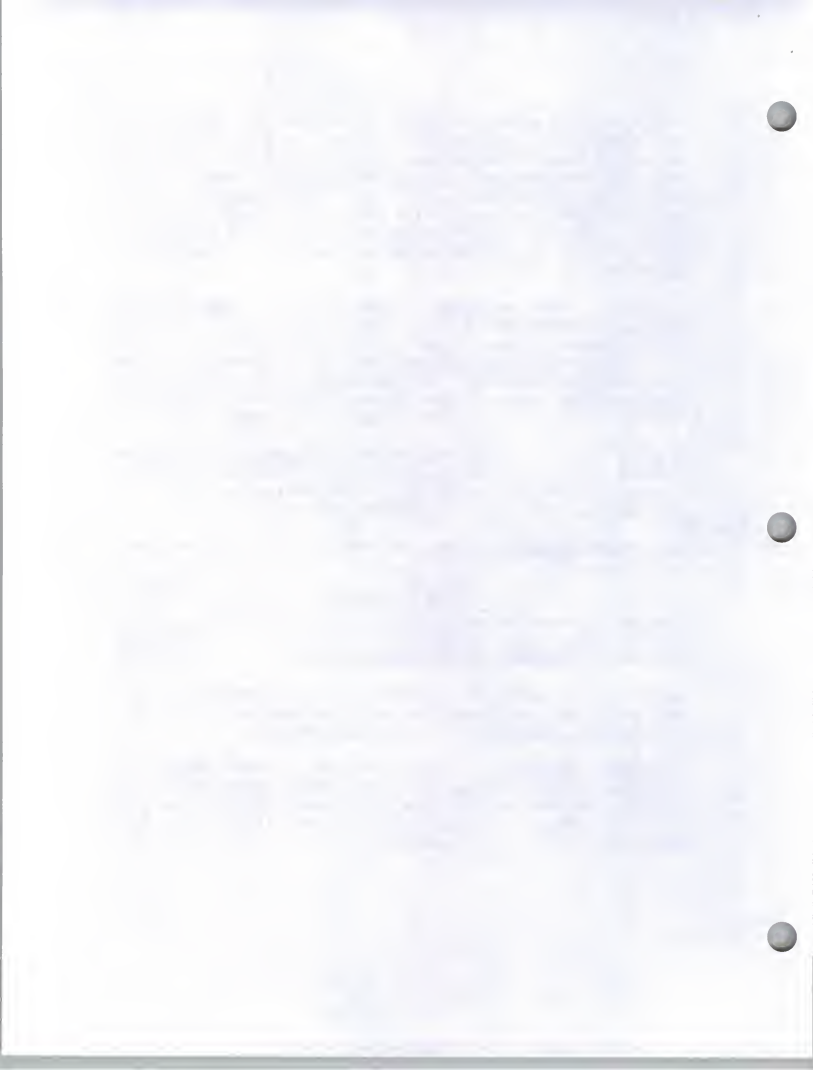
Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the six months ended December 31, 2014, and 2013, supplies inventories totaled \$55,372 and \$102,562, respectively. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2014	Additions	Deletions	December 31, 2014
Leasehold Improvements	\$ 59,781	\$ -	\$ -	\$ 59,781
Furniture & Equipment	\$ 2,981,106	\$ 9,750	\$ -	\$ 2,990,856
Accumulated Depreciation	\$(2,085,091)	\$(253,926)	\$ -	\$(2,339,017)

Estimated Prize Liability. The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at quarter end based on the predetermined prize structure of each outstanding game.

Obligation to Transfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The transfer obligations outstanding at December 31, 2014 and 2013 were \$4,020,568 and \$3,994,407, respectively.



Other Postemployment Benefits (OPEB).

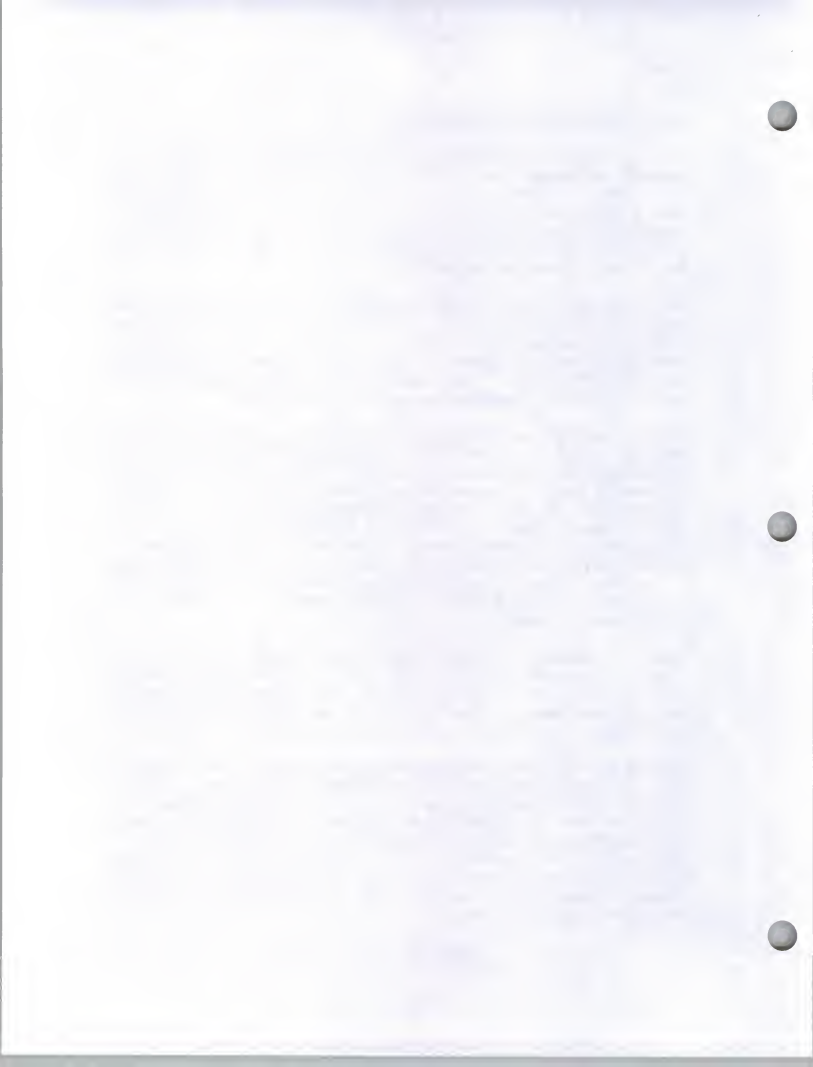
General. The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section 704 to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan.

Plan Description. The State OPEB plans are agent multiple employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

Bases of Accounting. OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Funding Policy. The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. As of June 2014, the State plan's administratively established retiree medical premiums vary between \$299 and \$1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$17.50 and \$60 and vision hardware premiums vary between \$5.76 and \$16.76 depending on the coverage selected.



Annual Other Postemployment Benefit Cost and Contributions. The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

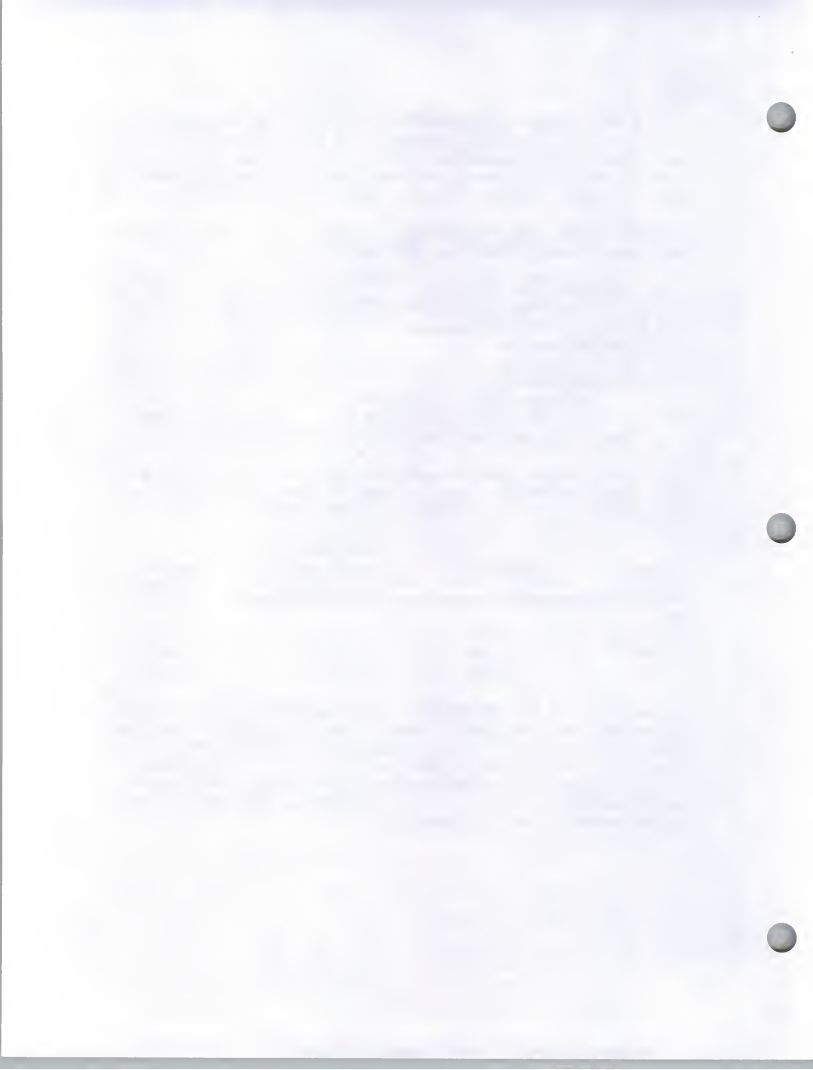
The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plans for fiscal year 2014 and 2013:

Year ended June 30,	2014	2013
Annual Required Contribution/OPEB cost	\$ 84,123	\$ 80,845
Interest on net OPEB obligation	19,313	16,460
Amortization Factor	(15,111)	(12,910)
Annual OPEB cost	88,325	84,395
Retiree Claims Paid	(16,882)	(10,138)
Increase in net OPEB obligation	71,443	74,257
Net OPEB obligation – beginning of year	461,119	386,862
Net OPEB obligation – end of year	\$ 532,562	\$ 461,119

The Lottery's annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for the fiscal years 2014 through 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 88,325	19.1%	\$ 532,562
6/30/2013	\$ 84,395	10.0%	\$ 461,119
6/30/2012	\$ 79,321	12.1%	\$ 386,862

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.



Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and six months ended December 31, 2014 retailers earned bonus commissions of \$126,965 and \$226,334, respectively. For the quarter and six months ended December 31, 2014 total commissions were \$872,611 and \$1,585,912, respectively.

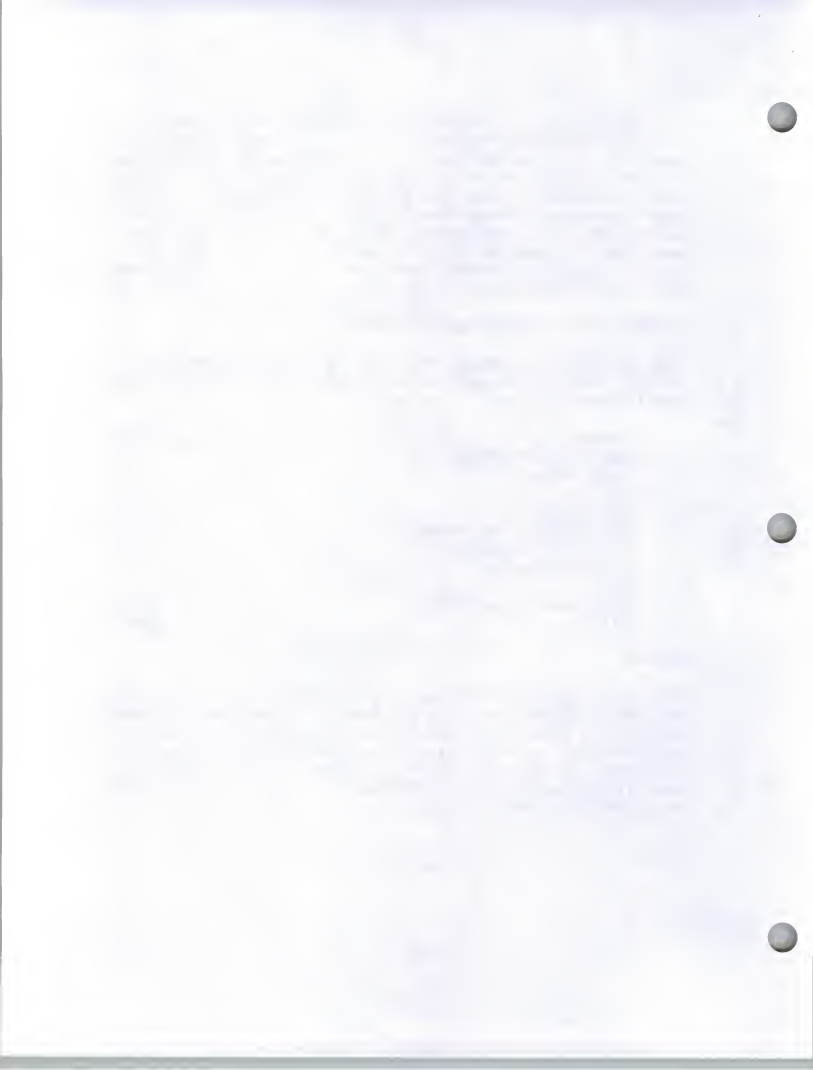
4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the six months ended December 31, 2014:

Insurance	\$ 10,976
Warrant Writing Services	212
Payroll Services	3,682
Audit Fees	12,360
Computer Fees	31,485
State Accounting System Support	1,531
Mail Processing Fees	5,541
Telecommunications	5,721
Other	345
Administrative Service Fees	<u>32,409</u>
TOTAL	\$ <u>104,262</u>

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended December 31, 2014, the prize expense of \$8,317,019 is 56.4% of net Lottery ticket revenue of \$14,743,273. For the six months ended December 31, 2014, the prize expense of \$15,309,195 is 57.0% of net Lottery ticket revenue of \$26,835,207.



6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended December 31, 2014, the net revenue payable to the State General Fund totaled \$3,321,749.

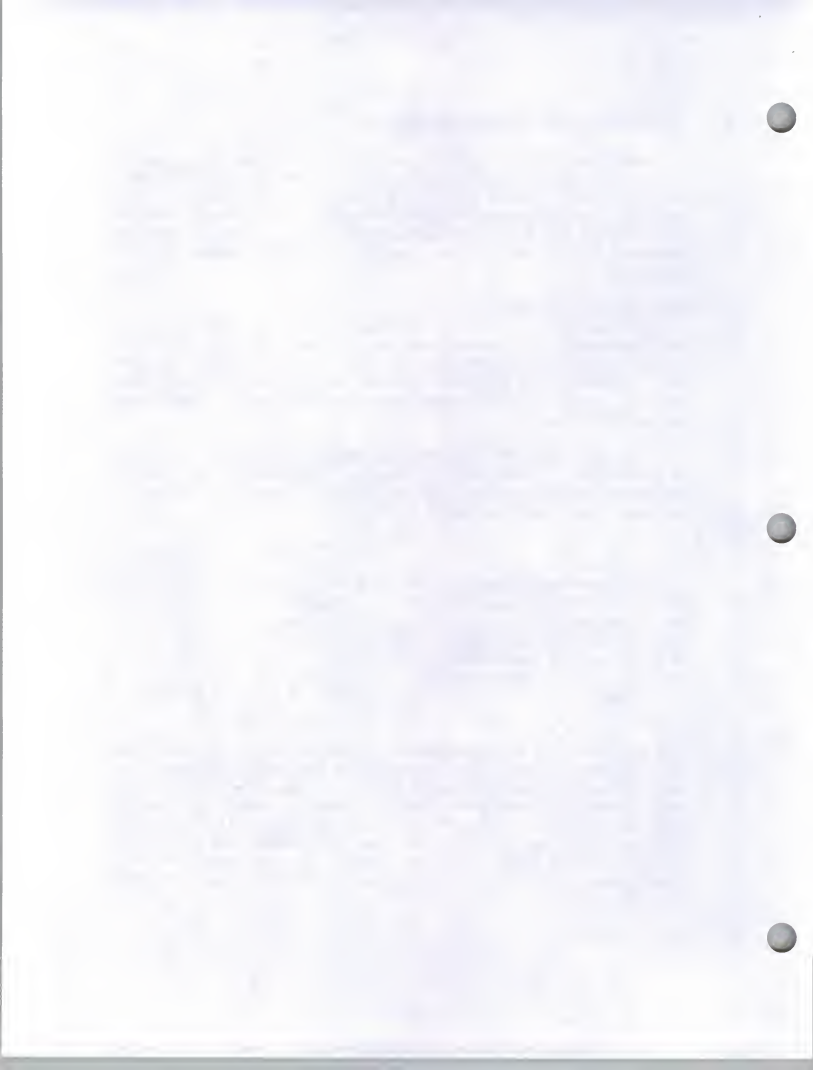
7. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of \$1,381,118 and \$1,607,510 as of December 31, 2014 and 2013, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	December 31, 2014	December 31, 2013
Powerball Prize Reserve Account	\$ 483,859	\$ 522,958
Powerball Set Prize Reserve Account	210,615	227,373
Powerball Unreserve Account	170,162	207,140
Wild Card Prize Reserve Account	53,622	151,710
Hot Lotto Set Prize Reserve Account	297,464	297,464
Mega Millions Prize Reserve Account	165,396	200,865
Total	<u>\$1,381,118</u>	<u>\$1,607,510</u>

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.



The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

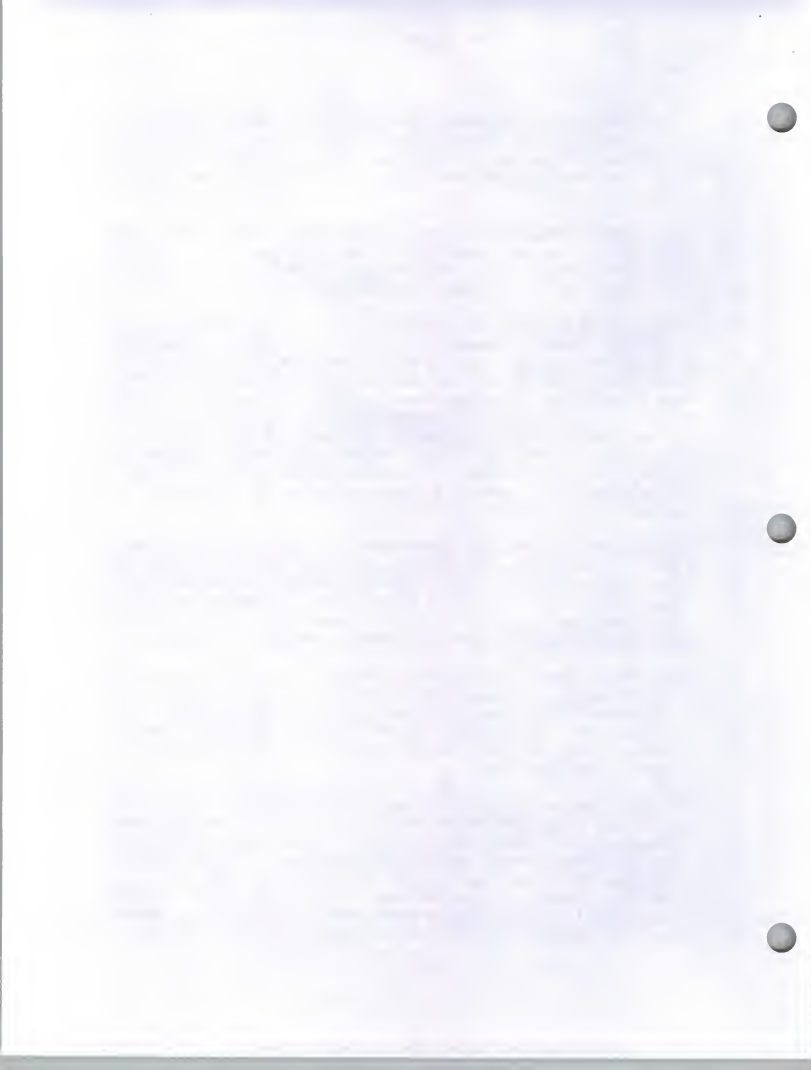
The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 57% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense



related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca\$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately \$40 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from \$4 to \$1,000,000 for matching fewer than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, the Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well.

The Montana Ca\$h game allows players the chance to win a minimum pari-mutuel jackpot of \$40,000. Players select 5 numbers from a field of 45 and must match at least 2 out of 5 to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5 and 4 of 5 wins \$200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of \$200,000. Players select 5 numbers from a field of 33 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from \$1 to \$6,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players in the 16 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of \$1 million, plus tax withholdings paid. This change was implemented May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 47, and one Hot Ball number from 1 to 19. To win the pari-mutuel jackpot, a player



must match all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

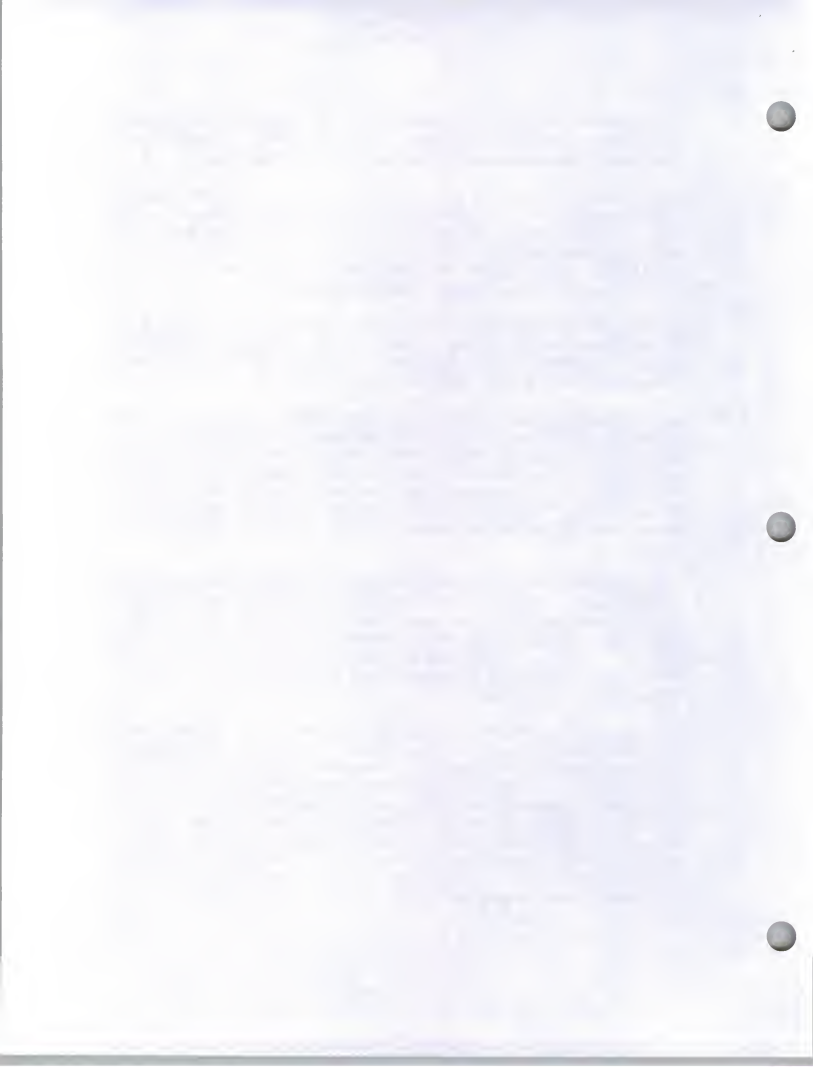
Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at \$12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from \$2 to \$250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs \$1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from \$2 to \$25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share (\$5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy (\$5, \$10, \$20, \$50 or \$100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.



Montana Millionaire is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2014 game offered 135,000 tickets, which sell for \$20 each. Early bird drawings for \$10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 275 \$50 instant winners and 575 \$500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 23, 2014. On January 1, 2015, one \$1 million prize was awarded, along with two \$100,000 prizes and three \$10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 31, 2015, with a drawing on New Year's Day 2016.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

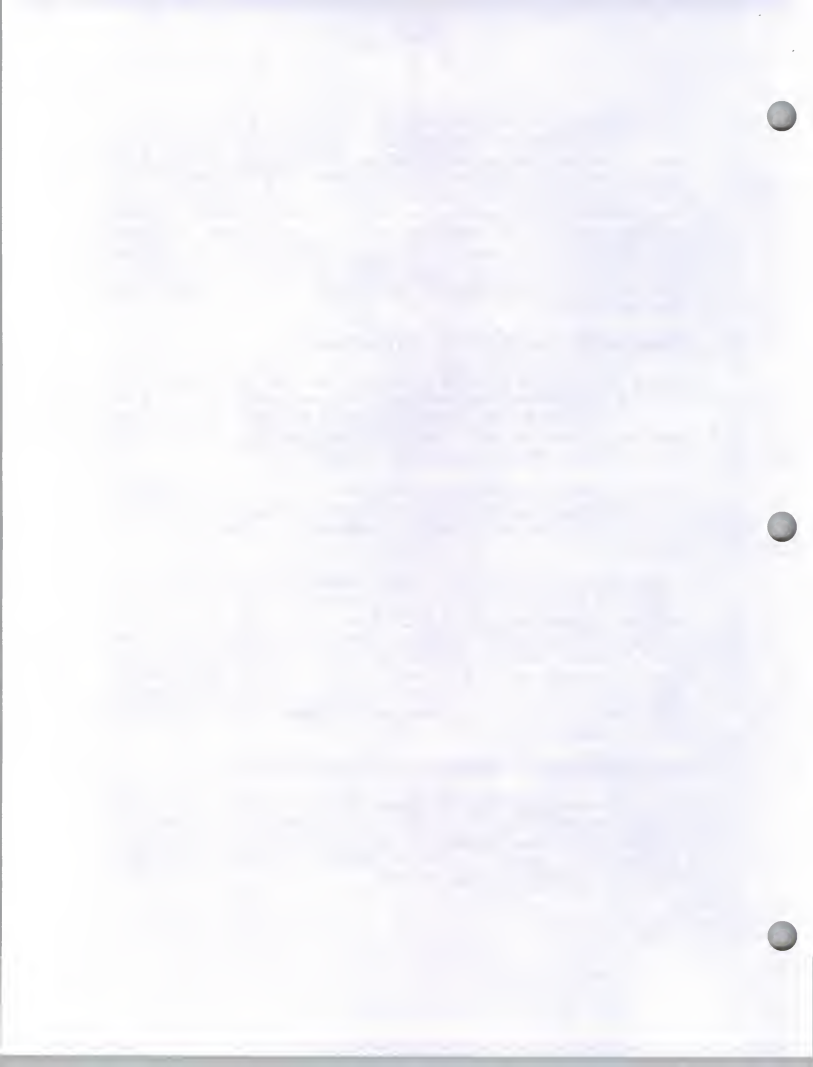
Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of \$3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to \$2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

10. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.



On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling \$1,740,000. The first annual payment of \$87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of \$3,000,000. The first annual payment of \$150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for \$7,360,000. The first annual payment of \$368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling \$46,967,738.57. The first annual payment of \$2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling \$2,000,000. The first annual payment of \$100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling \$700,565. The first annual payment of \$35,000 was made on July 26, 1994.

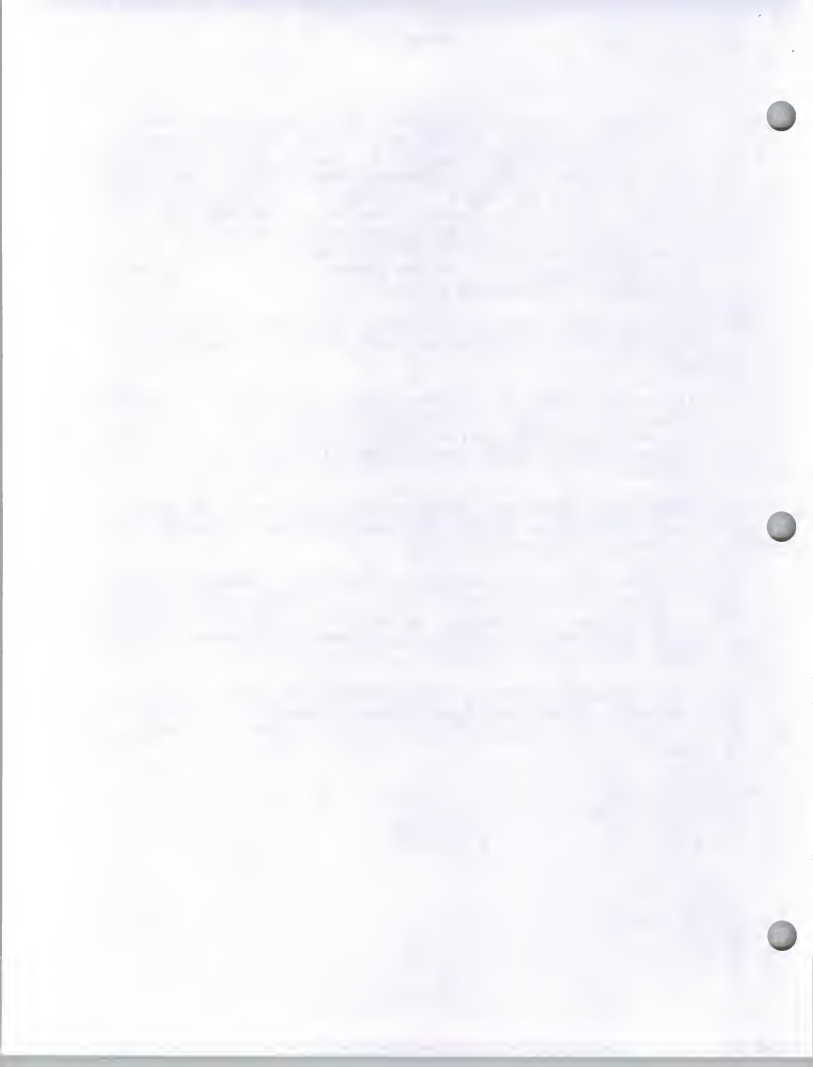
On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling \$31,401,655.99. The first payment of \$1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling \$11,000,000. The first annual payment of \$550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was \$35.1 million (\$19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was \$96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled \$48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of December 31, 2014, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball winners was \$1,100,000. Total annual payments due as of December 31, 2014 are as follows:

<u>FYE</u>	
2015	550,000
2016	<u>550,000</u>
	<u>\$ 1,100,000</u>



11. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is \$12,492 through August 2015. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at September 30, 2014 are as follows:

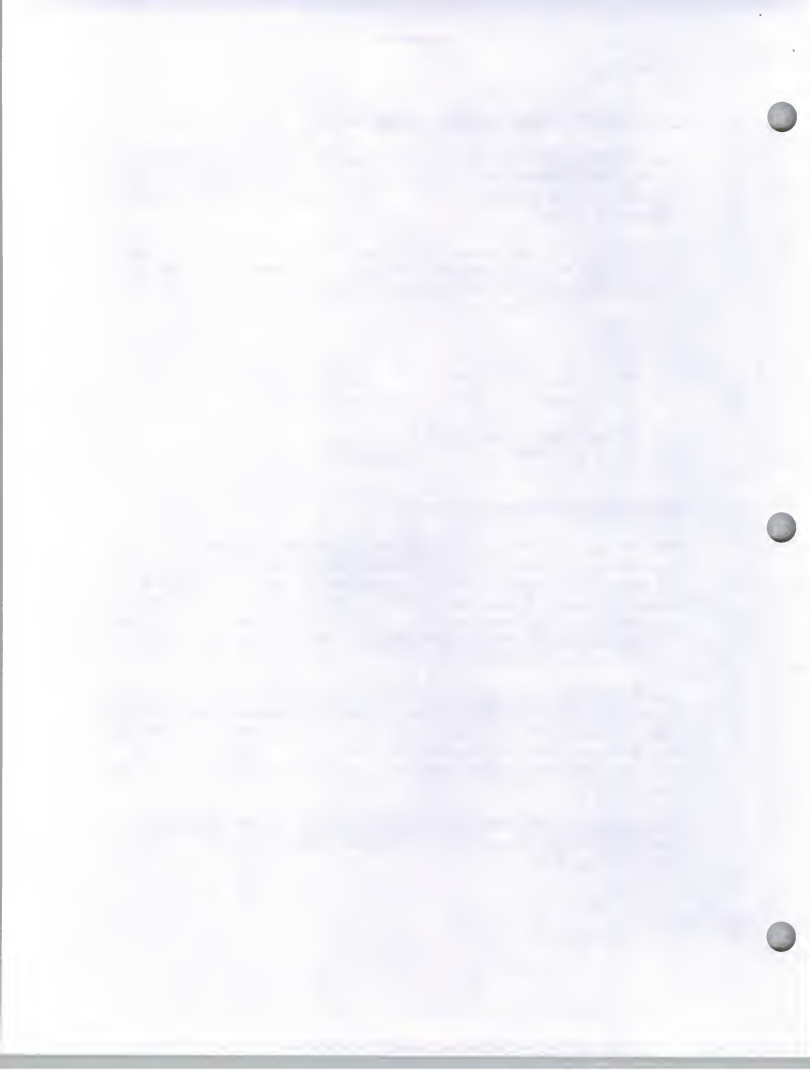
FYE	
2015	38,245
2016	<u>55,423</u>
Total Minimum Payments	93,668
Less: Interest	<u>(3,458)</u>
Present value of Minimum Payments	<u>\$ 90,210</u>

12. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.



Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 13% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 87% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

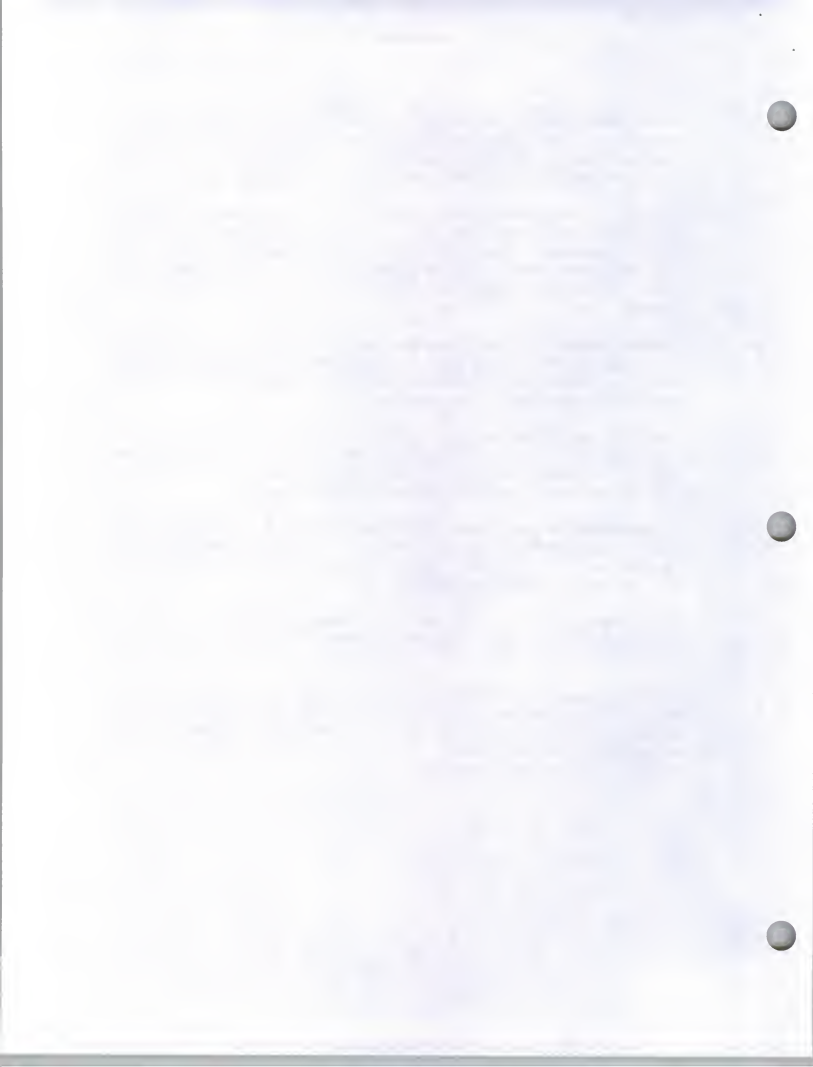
Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2014, the duration for the U.S. Government Treasury securities was 1.34 years.



13. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

-Alternative accessible formats of this document will be provided upon request.

